

## Message Text

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12

ACTION SS-14

INFO OCT-01 ISO-00 L-01 PM-03 MC-01 SP-02 DODE-00 NSC-05

NSCE-00 INR-05 CIAE-00 EB-03 ARA-06 H-01 /042 W

----- 128119

R 132040Z NOV 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7952

INFO AMEMBASSY BOGOTA

AMEMBASSY LIMA

DSAA, WASHDC

C O N F I D E N T I A L QUITO 8300

LIMDIS

E.O. 11652: GDS

TAGS: MASS, EC

SUBJECT: MUNITIONS CONTROL AND AGENT'S FEES

REF: STATE 255260

1. BEGIN SUMMARY: REFTEL DESCRIBED NEW DOD REGULATIONS GOVERNING ARMED SERVICES PROCUREMENT, WITH SPECIFIC REFERENCE TO AGENT'S FEES IN FOREIGN MILITARY SALES. EMBASSY WAS IMPRESSED WITH THOUGHTFUL REASONING, INDICATING IT IS THE DESIRE OF THE USG NOT TO COMPLICATE THE SALES PROBLEMS FACED BY US FIRMS, BUT RATHER TO TRY TO ENSURE THAT "RECENTLY-DISCLOSED PRACTICES" DO NOT RECUR. EMBASSY COMMENTS FOLLOW. END SUMMARY.

2. MOST GOE ARMS PURCHASES IN RECENT YEARS HAVE UTILIZED THE SERVICES OF MIDDLEMEN. IT IS CLEAR THAT HERE, AS, WE SUPPOSE, IN MANY UNDER-DEVELOPED COUNTRIES, THERE IS CONSIDERABLE LATITUDE FOR FAVORITISM, IF NOT OUT-AND-OUT CORRUPTION. THERE ARE A NUMBER OF SIGNIFICANT ARMS PURCHASES THE GOE HAS MADE IN RECENT YEARS (SUBMARINES FROM GERMANY, JAGUAR AIRCRAFT FROM BRITAIN, AND OTHER PROCUREMENT FROM OTHER COUNTRIES) IN WHICH THERE IS AMPLE SUSPICION OF PAY-OFFS AND KICK-BACKS. IT ALSO SEEMS CLEAR THAT SUCH CORRUPTION AS  
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HAS TAKEN PLACE HAS OCCURRED AT RELATIVELY HIGH LEVELS

(UP TO AND INCLUDING THE COMMANDERS OF THE RESPECTIVE SERVICES). FOR THIS REASON, THE QUESTION OF AGENT'S FEES IS A HIGHLY SENSITIVE ONE.

3. THE CURRENT GOE CAME TO OFFICE ON AN ANTI-CORRUPTION PLANK. WHEN FMS WAS RESTORED, WE WERE TOLD THAT IN ORDER TO CURTAIL THE POSSIBILITIES FOR BRIBERY AND KICK-BACKS THE GOE WISHED ALL MILITARY PURCHASES FROM THE US TO BE CONDUCTED THROUGH THE FMS PROCESS. THE US MISSION HAS INTERPRETED THIS STRICTLY, AND TRIED TO KEEP ALL REPEAT ALL SALES OF MILITARY EQUIPMENT IN FMS CHANNELS, ON A SERVICE-TO-SERVICE OR GOVERNMENT-TO-GOVERNMENT BASIS WITHOUT ANY MIDDLEMEN.

4. WE HAVE ASSISTED US FIRMS IN MAKING CONTACTS IN THE GOE (PRINCIPALLY IN THE MINISTRY OF DEFENSE AND INDIVIDUAL SERVICES), BUT WITH US MAKING NO EFFORT TO SELL THEIR PRODUCTS ON THEIR BEHALF. THE GOE KNOWS THAT WE HAVE TAKEN NO SIDES IN NON-FMS GOVERNMENT-TO-GOVERNMENT OR SERVICE-TO-SERVICE SALES PROPOSALS, AND WE BELIEVE THEY ARE GRATEFUL FOR OUR NOT HAVING BEEN PARTY TO MIDDLEMEN-ASSISTED TRANSACTION. WE HAVE FOLLOWED THE SAME TACTICS WITH RESPECT TO LOCAL REPRESENTATIVES OF US FIRMS.

5. WHILE OBVIOUSLY WE AS AN EMBASSY -- AND WE AS A GOVERNMENT -- CANNOT BE A PARTY TO THE SORT OF BRIBERY/KICK-BACK/CORRUPTION SCANDALS THAT HAVE EMERGED ELSEWHERE, WE MUST AT THE SAME TIME ACKNOWLEDGE THAT A COUNTRY'S OFFICIAL EXPENDITURES ARE LIKELY TO BE HIGHLY SENSITIVE TO THEM. QUITE APART FROM ANY DISADVANTAGES US REGULATIONS MAY PUT US FIRMS TO, WE ALSO RUN THE VERY REAL RISK OF HAVING CHARGES OF "INTERFERENCE" HURLED AT US. WHILE US REGULATIONS MIGHT COMPEL US FIRMS TO PROVIDE INFORMATION ON AGENTS AND FEES, THE GOE IS HIGHLY UNLIKELY TO FEEL CONSTRAINED TO COME CLEAN ITSELF.

6. ANY REGULATIONS THAT EMERGE FROM THE CURRENT REVIEWS, BOTH CONGRESSIONAL AND DEPARTMENTAL, SHOULD TAKE FULL ACCOUNT OF HOST COUNTRY SENSITIVITIES IN MATTERS WHICH CONFIDENTIAL

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THEY MAY WELL REGARD TO BE AN ISSUE OF NATIONAL SOVEREIGNTY. IT IS REGRETTABLE WHEN US COMPANIES ARE CAUGHT DOING BUSINESS IN A MANNER WHICH IS NOT COMPATIBLE WITH EITHER US LAW OR ACCEPTABLE ETHICAL STANDARDS; IT IS NOT, ON THE OTHER HAND, NECESSARILY WISE FOR THE USG TO TRY TO LEGISLATE OUR OWN STANDARDS FOR OTHER COUNTRIES.  
BREWSTER

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## Message Attributes

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**Draft Date:** 13 NOV 1975  
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